

CITY OF SPEARVILLE, KANSAS

**FINANCIAL STATEMENTS
with
INDEPENDENT AUDITOR'S REPORT
YEAR ENDED DECEMBER 31, 2011**

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
City of Spearville, Kansas

We have audited the accompanying financial statements of the City of Spearville, Kansas, as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note A, the City of Spearville, Kansas, has prepared these financial statements using accounting practices prescribed by the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, is presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Spearville, Kansas as of December 31, 2011, the changes in its financial position, or, where applicable, its cash flows for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the City of Spearville, Kansas, as of December 31, 2011, and its cash receipts and expenditures, and budgetary results for the year then ended on the basis of accounting described in Note A.

Kennedy McKee & Company LLP

May 18, 2012

CITY OF SPEARVILLE, KANSAS

SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH

Year ended December 31, 2011

<u>Fund</u>	<u>Beginning unencumbered cash balance</u>	<u>Prior year canceled encumbrances</u>
Governmental fund types:		
General fund	\$ 152,488	\$ -
Special revenue funds:		
Special street	104	-
Capital improvement	44,818	-
Crimestoppers	1,036	-
Community development	34,489	-
Woodbury trust	28,132	-
Community sign	220	-
Laudick estate	-	-
Debt service:		
Bond and interest	3,109	-
Capital project:		
Water well #11 construction	300,809	-
RHID construction	-	-
Proprietary fund type:		
Enterprise:		
Gas utility	111,343	-
Water utility	311,519	-
Sewer utility	13,847	-
Sanitation utility	13,987	-
Gas utility reserve	20,000	-
Water capital outlay	9,825	-
Total - excluding agency fund	<u>\$ 1,045,726</u>	<u>\$ -</u>
Composition of cash balance:		
Interest bearing checking		
Savings account		
Certificates of deposit		
Petty cash		
Total cash		
Utility deposit agency fund		
Total cash - excluding agency fund		

The accompanying notes are an integral
part of the financial statements.

<u>Cash receipts</u>	<u>Expenditures</u>	<u>Ending unencumbered cash balance</u>	<u>Add outstanding encumbrances and accounts payable</u>	<u>Ending cash balance</u>
\$ 241,093	\$ 224,771	\$ 168,810	\$ -	\$ 168,810
21,537	18,172	3,469	-	3,469
30,108	-	74,926	-	74,926
1	-	1,037	-	1,037
282,901	76,810	240,580	-	240,580
292	3,144	25,280	-	25,280
65	-	285	-	285
267,126	-	267,126	-	267,126
108,161	100,434	10,836	-	10,836
280	120,321	180,768	-	180,768
315,000	33,822	281,178	-	281,178
280,853	266,497	125,699	-	125,699
259,182	299,056	271,645	-	271,645
71,554	78,012	7,389	-	7,389
52,122	49,562	16,547	-	16,547
-	-	20,000	-	20,000
141,580	134,564	16,841	-	16,841
<u>\$ 2,071,855</u>	<u>\$ 1,405,165</u>	<u>\$ 1,712,416</u>	<u>\$ -</u>	<u>\$ 1,712,416</u>

\$ 812,260
887,960
19,181
100
<u>1,719,501</u>
7,085
<u>\$ 1,712,416</u>

CITY OF SPEARVILLE, KANSAS

SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET

(Budget Funds Only)

Year ended December 31, 2011

<u>Fund</u>	<u>Certified budget</u>	<u>Adjustment for qualifying budget credits</u>	<u>Total budget for comparison</u>	<u>Expenditures chargeable to current year</u>	<u>Variance favorable (unfavorable)</u>
General fund	\$ 325,000	\$ -	\$ 325,000	\$ 224,771	\$ 100,229
Special revenue funds:					
Special street	33,000	-	33,000	18,172	14,828
Debt service fund:					
Bond and interest	102,400	-	102,400	100,434	1,966
Enterprise funds:					
Gas utility	490,000	-	490,000	266,497	223,503
Water utility	307,660	-	307,660	299,056	8,604
Sewer utility	90,000	-	90,000	78,012	11,988
Sanitation utility	60,000	-	60,000	49,562	10,438
 Total	 <u>\$ 1,408,060</u>	 <u>\$ -</u>	 <u>\$ 1,408,060</u>	 <u>\$ 1,036,504</u>	 <u>\$ 371,556</u>

The accompanying notes are an integral
part of the financial statements.

CITY OF SPEARVILLE, KANSAS

GENERAL FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

	Year ended December 31,			
		2011		
	2010	Actual	Budget	Variance favorable (unfavorable)
Cash receipts:				
Taxes and shared revenue:				
Ad valorem property tax	\$ 93,953	\$ 96,033	\$ 98,262	\$ (2,229)
Delinquent tax	1,742	1,769	112	1,657
Motor vehicle tax	21,808	23,213	22,837	376
Recreational vehicle tax	334	384	286	98
16/20M truck tax	-	-	118	(118)
Sales tax	92,576	91,064	90,000	1,064
Licenses and permits	2,695	1,673	1,500	173
Fines	1,520	730	1,500	(770)
Charges for services	2,900	2,000	1,500	500
Franchise tax	31,547	18,123	18,000	123
Interest	1,275	746	800	(54)
Miscellaneous	2,466	5,358	1,000	4,358
Total cash receipts	<u>252,816</u>	<u>241,093</u>	<u>\$ 235,915</u>	<u>\$ 5,178</u>
Expenditures:				
General government	101,219	95,653	\$ 115,000	\$ 19,347
Public safety	74,444	82,199	85,000	2,801
Highways and streets	15,819	16,868	95,000	78,132
Transfer to capital improvement fund	<u>30,550</u>	<u>30,051</u>	<u>30,000</u>	<u>(51)</u>
Total expenditures	<u>222,032</u>	<u>224,771</u>	<u>\$ 325,000</u>	<u>\$ 100,229</u>
Receipts over (under) expenditures	30,784	16,322		
Unencumbered cash, beginning of year	<u>121,704</u>	<u>152,488</u>	<u>\$ 89,085</u>	<u>\$ 63,403</u>
Unencumbered cash, end of year	<u>\$ 152,488</u>	<u>\$ 168,810</u>		

The accompanying notes are an integral
part of the financial statements.

CITY OF SPEARVILLE, KANSAS

SPECIAL STREET FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

	Year ended December 31,			
		2011		Variance favorable (unfavorable)
	2010	Actual	Budget	
Cash receipts:				
Gasoline tax	\$ 23,274	\$ 21,462	\$ 23,680	\$ (2,218)
Charges for services	50	75	-	75
Total cash receipts	23,324	21,537	\$ 23,680	\$ (2,143)
Expenditures:				
Street maintenance	27,449	18,172	\$ 33,000	\$ 14,828
Receipts over (under) expenditures	(4,125)	3,365		
Unencumbered cash, beginning of year	4,229	104	\$ 9,320	\$ (9,216)
Unencumbered cash, end of year	\$ 104	\$ 3,469		

The accompanying notes are an integral part of the financial statements.

CITY OF SPEARVILLE, KANSAS

BOND AND INTEREST FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

	Year ended December 31,			
	2011			Variance
	2010	Actual	Budget	favorable (unfavorable)
Cash receipts:				
Taxes:				
Ad valorem property tax	\$ 29,740	\$ 5,025	\$ 5,111	\$ (86)
Delinquent tax	647	509	200	309
Motor vehicle tax	7,380	7,362	7,226	136
Recreational vehicle tax	113	120	91	29
16/20M truck tax	-	-	37	(37)
Special assessments	17,767	17,645	12,000	5,645
Transfer from water fund	4,000	77,500	77,500	-
Total cash receipts	59,647	108,161	\$ 102,165	\$ 5,996
Expenditures:				
Principal	55,000	35,400	\$ 35,400	\$ -
Interest and commission	5,059	65,034	67,000	1,966
Total expenditures	60,059	100,434	\$ 102,400	\$ 1,966
Receipts over (under) expenditures	(412)	7,727		
Unencumbered cash, beginning of year	3,521	3,109	\$ 235	\$ 2,874
Unencumbered cash, end of year	\$ 3,109	\$ 10,836		

The accompanying notes are an integral
part of the financial statements.

CITY OF SPEARVILLE, KANSAS

GAS UTILITY FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

	Year ended December 31,			
		2011		
	2010	Actual	Budget	Variance favorable (unfavorable)
Cash receipts:				
Customer charges	\$ 300,977	\$ 280,853	\$ 450,000	\$ (169,147)
Expenditures:				
Personal services	45,133	63,411	\$ 60,000	\$ (3,411)
Contractual services	198,130	185,765	375,000	189,235
Commodities	7,287	7,134	10,000	2,866
Capital outlay	24,033	10,187	25,000	14,813
Transfer to gas reserve fund	-	-	20,000	20,000
Total expenditures	274,583	266,497	\$ 490,000	\$ 223,503
Receipts over (under) expenditures	26,394	14,356		
Unencumbered cash, beginning of year	84,949	111,343	\$ 59,949	\$ 51,394
Unencumbered cash, end of year	\$ 111,343	\$ 125,699	\$ 19,949	\$ 105,750

The accompanying notes are an integral
part of the financial statements.

CITY OF SPEARVILLE, KANSAS

WATER UTILITY FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

	Year ended December 31,			
	2011			Variance
	2010	Actual	Budget	favorable (unfavorable)
Cash receipts:				
Customer charges	\$ 232,277	\$ 259,182	\$ 210,000	\$ 49,182
Expenditures:				
Personal services	37,442	37,306	\$ 55,000	\$ 17,694
Contractual services	46,462	37,560	40,000	2,440
Commodities	11,228	15,038	15,000	(38)
Capital outlay	24,433	5,922	75,000	69,078
Transfers	44,160	203,230	122,660	(80,570)
Total expenditures	163,725	299,056	\$ 307,660	\$ 8,604
Receipts over (under) expenditures	68,552	(39,874)		
Unencumbered cash, beginning of year	242,967	311,519	\$ 217,806	\$ 93,713
Unencumbered cash, end of year	\$ 311,519	\$ 271,645	\$ 120,146	\$ 151,499

The accompanying notes are an integral
part of the financial statements.

CITY OF SPEARVILLE, KANSAS

SEWER UTILITY FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

	Year ended December 31,			
	2011			Variance
	2010	Actual	Budget	favorable (unfavorable)
Cash receipts:				
Customer charges	\$ 71,844	\$ 71,554	\$ 70,000	\$ 1,554
Expenditures:				
Personal services	50,604	53,438	\$ 40,000	\$ (13,438)
Contractual services	20,743	14,195	25,000	10,805
Commodities	516	269	5,000	4,731
Capital outlay	6,348	10,110	20,000	9,890
Total expenditures	78,211	78,012	\$ 90,000	\$ 11,988
Receipts over (under) expenditures	(6,367)	(6,458)		
Unencumbered cash, beginning of year	20,214	13,847	\$ 23,215	\$ (9,368)
Unencumbered cash, end of year	\$ 13,847	\$ 7,389	\$ 3,215	\$ 4,174

The accompanying notes are an integral
part of the financial statements.

CITY OF SPEARVILLE, KANSAS

SANITATION UTILITY FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

	Year ended December 31,			
	2011			Variance
	2010	Actual	Budget	favorable (unfavorable)
Cash receipts:				
Customer charges	\$ 51,373	\$ 52,122	\$ 55,000	\$ (2,878)
Expenditures:				
Personal services	-	-	\$ 6,000	\$ 6,000
Contractual services	49,142	49,562	53,000	3,438
Commodities	-	-	1,000	1,000
Capital outlay	2,000	-	-	-
Total expenditures	51,142	49,562	\$ 60,000	\$ 10,438
Receipts over (under) expenditures	231	2,560		
Unencumbered cash, beginning of year	13,756	13,987	\$ 14,257	\$ (270)
Unencumbered cash, end of year	\$ 13,987	\$ 16,547	\$ 9,257	\$ 7,290

The accompanying notes are an integral
part of the financial statements.

CITY OF SPEARVILLE, KANSAS

CAPITAL IMPROVEMENT FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES

	Year ended December 31,	
	2010	2011
Cash receipts:		
Transfer from general fund	\$ 30,550	\$ 30,051
Interest	48	57
Total cash receipts	30,598	30,108
Expenditures:		
Capital improvements	-	-
Receipts over (under) expenditures	30,598	30,108
Unencumbered cash, beginning of year	14,220	44,818
Unencumbered cash, end of year	<u>\$ 44,818</u>	<u>\$ 74,926</u>

The accompanying notes are an integral
part of the financial statements.

CITY OF SPEARVILLE, KANSAS

CRIMESTOPPERS FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES

	Year ended December 31,	
	2010	2011
Cash receipts:		
Interest and donations	\$ 2	\$ 1
Expenditures:		
Public safety	-	-
Receipts over (under) expenditures	2	1
Unencumbered cash, beginning of year	1,034	1,036
Unencumbered cash, end of year	<u>\$ 1,036</u>	<u>\$ 1,037</u>

The accompanying notes are an integral
part of the financial statements.

CITY OF SPEARVILLE, KANSAS

COMMUNITY DEVELOPMENT FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES

	Year ended December 31,	
	2010	2011
Cash receipts:		
Loan repayment	\$ 43,971	\$ 271,235
Interest	20,232	11,666
Total cash receipts	64,203	282,901
Expenditures:		
Administrative	2,050	1,616
Loan disbursement	165,000	75,194
Total expenditures	167,050	76,810
Receipts over (under) expenditures	(102,847)	206,091
Unencumbered cash, beginning of year	137,336	34,489
Unencumbered cash, end of year	\$ 34,489	\$ 240,580

The accompanying notes are an integral
part of the financial statements.

CITY OF SPEARVILLE, KANSAS

WOODBURY TRUST FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES

	Year ended December 31,	
	2010	2011
Cash receipts:		
Interest	\$ 417	\$ 292
Expenditures:		
Financial aid	563	3,144
Receipts over (under) expenditures	(146)	(2,852)
Unencumbered cash, beginning of year	28,278	28,132
Unencumbered cash, end of year	<u>\$ 28,132</u>	<u>\$ 25,280</u>

The accompanying notes are an integral
part of the financial statements.

CITY OF SPEARVILLE, KANSAS

COMMUNITY SIGN FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES

	Year ended December 31,	
	2010	2011
Cash receipts:		
Donations	\$ 75	\$ 65
Expenditures:		
Capital outlay	51	-
Receipts over (under) expenditures	24	65
Unencumbered cash, beginning of year	196	220
Unencumbered cash, end of year	<u>\$ 220</u>	<u>\$ 285</u>

The accompanying notes are an integral
part of the financial statements.

CITY OF SPEARVILLE, KANSAS

LAUDICK ESTATE FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES

	Year ended December 31,	
	2010	2011
Cash receipts:		
Donations	\$ -	266,355
Interest	-	771
Total cash receipts	-	267,126
Expenditures	-	-
Receipts over (under) expenditures	-	267,126
Unencumbered cash, beginning of year	-	-
Unencumbered cash, end of year	\$ -	\$ 267,126

The accompanying notes are an integral
part of the financial statements.

CITY OF SPEARVILLE, KANSAS

WATER WELL #11 CONSTRUCTION FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES

	Year ended December 31,	
	2010	2011
Cash receipts:		
Proceeds of bonds	\$ 1,506,000	\$ -
Interest	924	280
Total receipts	<u>1,506,924</u>	<u>280</u>
Expenditures:		
Contractual services	22,807	17
Capital outlay	559,169	120,304
Debt service	<u>1,536,037</u>	<u>-</u>
Total expenditures	<u>2,118,013</u>	<u>120,321</u>
Receipts over (under) expenditures	(611,089)	(120,041)
Unencumbered cash, beginning of year	<u>911,898</u>	<u>300,809</u>
Unencumbered cash, end of year	<u><u>\$ 300,809</u></u>	<u><u>\$ 180,768</u></u>

The accompanying notes are an integral
part of the financial statements.

CITY OF SPEARVILLE, KANSAS

RHID CONSTRUCTION FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES

	Year ended December 31,	
	2010	2011
Cash receipts:		
Proceeds of temporary notes/bonds	\$ -	315,000
Expenditures:		
Construction	-	33,822
Receipts over (under) expenditures	-	281,178
Unencumbered cash, beginning of year	-	-
Unencumbered cash, end of year	<u>\$ -</u>	<u>\$ 281,178</u>

The accompanying notes are an integral
part of the financial statements.

CITY OF SPEARVILLE, KANSAS

GAS UTILITY RESERVE FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES

	Year ended December 31,	
	2010	2011
Cash receipts:		
Transfer from gas utility fund	\$ -	\$ -
Unencumbered cash, beginning of year	<u>20,000</u>	<u>20,000</u>
Unencumbered cash, end of year	<u>\$ 20,000</u>	<u>\$ 20,000</u>

The accompanying notes are an integral
part of the financial statements.

CITY OF SPEARVILLE, KANSAS

WATER CAPITAL OUTLAY FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES

	Year ended December 31,	
	2010	2011
Cash receipts:		
Cash rent	\$ 9,445	\$ 15,850
Transfer from water fund	40,160	125,730
Total cash receipts	49,605	141,580
Expenditures:		
Debt service:		
Capital lease principal	39,017	130,214
Interest	9,199	4,350
Total expenditures	48,216	134,564
Receipts over (under) expenditures	1,389	7,016
Unencumbered cash, beginning of year	8,436	9,825
Unencumbered cash, end of year	\$ 9,825	\$ 16,841

The accompanying notes are an integral
part of the financial statements.

CITY OF SPEARVILLE, KANSAS

CASH RECEIPTS, DISBURSEMENTS AND BALANCES

UTILITY DEPOSITS FUND

Year ended December 31, 2011

<u>Fund</u>	<u>Balance January 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31, 2011</u>
Utility deposits	<u>\$ 6,810</u>	<u>\$ 2,375</u>	<u>\$ 2,100</u>	<u>\$ 7,085</u>

The accompanying notes are an integral
part of the financial statements.

CITY OF SPEARVILLE, KANSAS
NOTES TO FINANCIAL STATEMENTS

December 31, 2011

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies applied in the preparation of the accompanying financial statements is presented to assist in understanding the City's financial statements, which are presented in conformity with the cash basis and budget laws of the State of Kansas. The financial statements and notes are the representation of the City's management, which is responsible for their integrity and objectivity. The amounts shown for 2010 in the accompanying financial statements are included, where practicable, only to provide a basis for comparison with 2011, and are not intended to present all information necessary for a fair presentation in accordance with the basis of accounting as described below.

1. Financial reporting entity

The City of Spearville is a municipal corporation governed by an elected mayor and five-member council. The scope of the entity for financial reporting purposes is defined as those funds for which the governing body of the City has financial accountability. Financial accountability includes budgetary authority and fiscal management responsibility. Budgetary authority is defined as authority for final approval of budgetary appropriations and revisions. Fiscal management responsibility is control of the collection and disbursement of funds. These financial statements include all funds included in the City's legally adopted budget and trust and agency funds controlled or administered by City employees in their capacity as City employees. The City has no component units.

2. Fund accounting

The accounts of the City are organized on the basis of funds. In governmental accounting, a fund is designated as a sum of money or other resources segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations and constituting an independent fiscal and accounting entity.

City resources are allocated to and for individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

The following types of funds comprise the financial activities of the City for the year of 2011:

Governmental fund types

General fund - to account for all financial transactions not properly accounted for in another fund. It receives a greater variety and number of taxes and other general revenue than any other fund and finances a wider range of activities than any other fund.

Special revenue funds - to account for the proceeds of specific revenue sources that are restricted by law or administrative action to expenditure for specified purposes.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Fund accounting (continued)

Governmental fund types (continued)

Debt service fund - to account for the accumulation of resources for, and the payment of, interest and principal on general long-term debt, including special assessments which are general obligations of the City.

Capital project funds – to account for major capital expenditures not financed by enterprise funds

Proprietary fund types

Enterprise funds - to account for operations where it is the stated intent that the costs of providing that service to the general public on a continuing basis be financed or recovered primarily through user charges.

3. Basis of accounting

Statutory Basis of Accounting. The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund and an expenditure is charged in the fund from which the transfer is made.

The City has adopted a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the City to use the statutory basis of accounting.

Departure from accounting principles generally accepted in the United States of America. The basis of accounting described above results in a financial statement presentation which shows cash receipts, cash disbursements, cash and unencumbered cash balances, and expenditures compared to budget. A statement of net assets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance is not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the City are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences is not presented in the financial statements.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. Budgetary information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in the official newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for 2011.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the modified accrual basis of accounting, modified further by the encumbrance method of accounting. Revenues are recognized when cash is received. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unencumbered appropriations (legal budget expenditure authority) lapse at year-end.

A legal operating budget is not required for utility reserve funds, trust and agency funds, capital project funds or the capital improvement, Laudick estate, crimestoppers and community sign special revenue funds.

Spending in funds which are not subject to the legal annual operating budget requirement are controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

5. Cash and Investments

The City pools cash resources of its various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in interest bearing deposits and disclosed as part of the City's deposits.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6. Ad valorem tax revenue

The determination of assessed valuation and the collections of property taxes for all political subdivisions in the State of Kansas is the responsibility of the various counties. The County Appraiser's Office annually determines assessed valuation and the County Clerk spreads the annual assessment on the tax rolls. Taxes are levied by November and a lien for all taxes shall attach on that same date until the taxes are paid. One-half of the property taxes are due December 20 and distributed to the City by January 20, and the second half is due May 10 and distributed to the City by June 5. The City draws available funds from the County Treasurer's office at designated times throughout the year.

7. Special assessments

Projects financed in part by special assessments are financed through issuance of general obligation bonds of the City and are retired from the bond and interest fund. Special assessments paid prior to the issuance of bonds are recorded as revenue in the appropriate project. Special assessments received after the issuance of bonds are recorded as revenue in the bond and interest fund.

8. Pension plan

Substantially all full-time employees are members of the State of Kansas Public Employees' Retirement System (KPERs) which is a multiple-employer state-wide pension plan. The City's policy is to fund all pension costs accrued; such costs to be funded are determined annually by the system's actuary.

9. Other Post Employment Benefits

As provided by K.S.A. 12-5040, the City allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the City is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these financial statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the City under this program.

10. Compensated absences

Sick leave for regular employees is earned at a rate of one-half day per month and may accrue up to a maximum of thirty days. Unused sick leave will not be paid upon termination or resignation. Ten working days per year are allowed as vacation leave to regular City employees. If not used by year-end, these days are lost.

11. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; and medical needs of employees. The City purchases commercial insurance to cover health, property, liability, and worker's compensation claims. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

B. DEPOSITS AND INVESTMENTS

Policies. The City has no formal deposit and investment policies; however it does follow state statutes. K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds to have a main or branch bank in the county in which the City is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices. State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk - deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka. At year-end the carrying amount of the City's deposits, including certificates of deposit, was \$1,719,401. The bank balance was \$1,757,295. The bank balance was held by two banks resulting in concentration of credit risk. Of the bank balance, \$500,000 was covered by federal depository insurance, and \$1,257,295 was collateralized with securities held by the pledging financial institution's agents in the City's name.

C. LONG-TERM DEBT

Changes in long-term liabilities for the entity for the year ended December 31, 2011, were as follows:

<u>Issue</u>	<u>Balance beginning of year</u>	<u>Additions</u>	<u>Reductions/ net change</u>	<u>Balance end of year</u>	<u>Interest paid</u>
General obligation bonds:					
Street improvements					
Issued May 26, 1998					
In the amount of \$239,577					
At interest rates of 4.85%					
Maturing November 1, 2013	\$ 60,000	\$ -	\$ 20,000	\$ 40,000	\$ 2,910
Water Improvements					
Issued April 27, 2010					
In the amount of \$1,506,000					
At interest rate of 4.125%					
Maturing April 27, 2050	1,506,000	-	15,400	1,490,600	62,122

C. LONG-TERM DEBT (CONTINUED)

<u>Issue</u>	<u>Balance beginning of year</u>	<u>Additions</u>	<u>Reductions/ net change</u>	<u>Balance end of year</u>	<u>Interest paid</u>
Temporary notes:					
RHID					
Issued December 1, 2011					
In the amount of \$315,000					
At interest rate of 1.75%					
Maturing December 1, 2015	\$ -	\$ 315,000	\$ -	\$ 315,000	\$ -
Capital leases:					
Land for Water Rights					
Issued December 18, 1998					
In the amount of \$546,000					
At interest rate of 5.43%					
Maturing December 18, 2013	<u>130,214</u>	<u>-</u>	<u>130,214</u>	<u>-</u>	<u>4,340</u>
Total long-term debt	<u>\$1,696,214</u>	<u>\$ 315,000</u>	<u>\$ 165,614</u>	<u>\$1,845,600</u>	<u>\$ 69,372</u>

Current maturities of general obligation bonds and interest for the next five years and in five year increments through maturity are as follows:

	<u>Principal due</u>	<u>Interest due</u>	<u>Total due</u>
2012	\$ 36,100	\$ 68,940	\$ 105,040
2013	36,700	67,306	104,006
2014	17,400	65,647	83,047
2015	333,100	64,929	398,029
2016	18,900	58,670	77,570
2017-2021	106,800	280,991	387,791
2022-2026	130,700	257,078	387,778
2027-2031	159,700	227,828	387,528
2032-2036	195,500	192,052	387,552
2037-2041	239,300	148,257	387,557
2042-2046	292,900	94,665	387,565
2047-2050	<u>278,500</u>	<u>29,164</u>	<u>307,664</u>
Total	<u>\$ 1,845,600</u>	<u>\$ 1,555,527</u>	<u>\$ 3,401,127</u>

D. INTERFUND TRANSACTIONS

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources to provide services, purchase and construct assets, and service debt. The governmental funds financial statements generally reflect such transactions as transfers.

Operating transfers were as follows:

<u>From</u>	<u>To</u>	<u>Statutory authority</u>	<u>Amount</u>
Water utility	Bond and interest	K.S.A. 12-825d	\$ 77,500
Water utility	Water capital outlay	K.S.A. 12-825d	125,730
General	Capital improvement	K.S.A. 12-1,118	30,051

E. DEFINED BENEFIT PENSION PLAN

Plan description. The City of Spearville, Kansas participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to (611 S. Kansas; Topeka, KS 66603-3803) or by calling 1-800-228-0366.

Funding Policy. K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% for Tier 1 employees (generally active members prior to July 1, 2009) and 6% for Tier 2 employees (generally active members on or after July 1, 2009) of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established by statute for 2011 was 7.74%. The City of Spearville, Kansas employer contributions to KPERS for the years ending December 31, 2011, 2010, and 2009 were \$13,270, \$10,408, and \$7,921, respectively, equal to the required contributions for each year.

F. DEBT LIMITATION

The amount of long-term debt that can be incurred by the City is limited by K.S.A. 10-308. K.S.A. 10-309 provides for certain exemptions and K.S.A. 10-311 exempts revenue bond issues from the overall limitation. Except as provided in other statutes the total outstanding bonded indebtedness during a year can be no greater than 30% of the assessed value of taxable tangible property as certified to the County Clerk on the preceding August 25. As of December 31, 2011, the City did not have any debt subject to the limitations imposed by K.S.A. 10-308.

G. SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 18, 2012, the date on which the financial statements were available to be used. Management's evaluation concluded that there are no subsequent events that are required to be recognized or disclosed in these financial statements.

H. CONSTRUCTION COMMITMENTS

As of December 31, 2011, the City had the following commitments with respect to unfinished capital projects:

<u>Project</u>	<u>Project commitments authorized</u>	<u>Expenditures to date</u>	<u>Remaining financial commitment</u>
Water Well #11	\$ 1,506,000	\$ 1,325,232	\$ 180,768
RHID	315,000	33,822	281,178

As of December 31, 2011, the Water Well #11 project was completed under the projected costs resulting in a portion of the bond proceeds not being used to fund the project. The bondholder (USDA) has allowed the City to use a portion of these proceeds to repair the water tower as a part of this project, which is now complete, with the remaining balance to retire a portion of the bonds.